MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

DII5018 – INTRODUCTION TO INVESTMENT

(For Diploma Students Only)

03 MARCH 2017
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TEN (10)** pages only excluding the cover page.
2. Answer **ALL** questions.
3. Answers for Section A should be shaded on the OMR sheet provided.
4. For Section B, please write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark).

1. Stocks are a(n) _____ investment representing _____ of a business.

   A. direct; ownership
   B. direct; debt
   C. indirect; ownership
   D. indirect; debt

2. Debt represents funds loaned in exchange for _____.

   A. dividend income and the repayment of the loan principal
   B. interest income and the repayment of the loan principal
   C. interest income and a partial ownership interest in the firm
   D. dividend income and an ownership interest in the firm

3. A forum in which suppliers and demanders of funds make financial transactions is called a financial _____.

   A. market
   B. instrument
   C. bank
   D. institution

4. Which one of the following would be the **MOST** liquid asset?

   A. Real estate.
   B. Money market mutual fund.
   C. Bond.
   D. Stock.

5. Murni purchased a stock one year ago at a price of RM40 a share. Today she sold the stock for RM55 a share. Her capital gain per share is _____.

   A. RM5
   B. -RM5
   C. -RM15
   D. RM15

6. Stocks and bonds are traded in _____.

   A. capital markets
   B. money markets
   C. securities and exchange commissions
   D. equity markets

Continued...

7. The document that describes the issuer of a security's management and financial position is known as a _____.

   A. red herring
   B. prospectus
   C. 10-K report
   D. balance sheet

8. The price an individual investor will pay to purchase a stock in the OTC market is the _____.

   A. spread
   B. ask price
   C. bid price
   D. broker price

9. Which of the following are associated with bull markets?

   I. Investor pessimism.
   II. Government stimulus.
   III. Economic recovery.
   IV. Low inflation.

   A. I and II only.
   B. II and III only.
   C. I, II and III only.
   D. II, III and IV only.

10. Jim purchased 100 shares of stock at a price of RM32 a share. He utilised his 80% margin account to make the purchase. What is Jim's initial equity in this investment?

    A. -RM640.
    B. RM640.
    C. RM2,560.
    D. RM3,200.

11. Ashley purchased a stock at a price of RM27 a share. She received quarterly dividends of RM0.75 per share. After one year, Ashley sold the stock at a price of RM29.25 a share. What is her percentage total return on this investment?

    A. 10.3%
    B. 11.1%
    C. 17.9%
    D. 19.4%

Continued...

12. Inflation tends to have a particularly negative impact on the price of _____.

A. real estate
B. bonds
C. gold
D. crude oil

13. Which one of the following is an internal characteristic that can affect the value of an investment?

A. BNM actions.
B. Inflation.
C. War.
D. Use of debt financing.

14. Which one following will lower required rates of return?

A. Higher rates of inflation.
B. Higher risk premiums.
C. Lower rates of inflation.
D. Lower dividend yields.

15. Which of the following is(are) issue characteristics of an investment?

I. type of investment such as stocks or bonds.
II. state of the economy.
III. Coupon or dividend payments.
A. I and II only.
B. III only.
C. I and III only.
D. I, II and III.

16. To obtain the maximum reduction in risk, an investor should combine assets that _____.

A. are negatively correlated
B. are uncorrelated
C. have a correlation coefficient of positive one
D. have a correlation coefficient of negative one

17. Which of the following represent systematic risks?
I. The president of a company suddenly resigns.
II. The economy goes into a recessionary period.
III. A company's product is recalled for defects.
IV. BNM unexpectedly changes interest rates.

A. I, II and IV only.
B. II and IV only.
C. I and III only.
D. I, II and III only.

Continued...

18. When the stock market has bottomed out and is beginning to recover, the best portfolio to own is the one with a beta of _____.

A. 0.0
B. +0.5
C. +1.5
D. +2.0

19. Capital Asset Pricing Model (CAPM) is a mathematical model that depicts the _____.

A. positive relationship between risk and return
B. standard deviation between a risk premium and an investment's expected return
C. exact price that an investor should be willing to pay for any given investment
D. difference between a risk-free return and the expected rate of inflation

20. The efficient frontier _____.

A. is represented by the rightmost boundary of the feasible set of portfolios
B. represents the best attainable tradeoff between risk and return
C. includes all feasible sets of portfolios based on risk and return characteristics
D. provides the highest level of risk for the lowest level of return

21. Since each share of common stock represents ownership in a company, shares of common stock are often referred to as _____.

A. illiquid investments
B. equity securities
C. fixed-income securities
D. unit-cost securities

22. A round lot consists of _____.

A. 1 share
B. 10 shares
C. 100 shares
D. 1,000 shares

23. The value that represents the amount of stockholders' equity in a firm is called the _____.

A. par value
B. book value
C. liquidation value
D. market value

Continued...

24. To take advantage of the opportunity to acquire additional shares of a company's stock without incurring any brokerage commissions, many investors participate in _____.

A. initial public offerings
B. dividend reinvestment plans
C. deferred equity securities
D. corporate trusts

25. Characteristics of established growth companies include all of the following **EXCEPT** _____.

A. high operating margins
B. steady earnings growth
C. adequate cash flow to service their debt
D. high dividend payout ratios

26. Some investment analysts believe that the market processes new information so well and so quickly that securities trade very close to their intrinsic values at all times. These analysts are said to be advocates of _____.

A. fundamental analysis
B. sector analysis
C. the efficient market hypothesis
D. the prevailing price hypothesis

27. Increases in either interest rates or taxes tend to _____.

A. contract the level of economic activity
B. increase the level of business investment
C. indicate governmental expansion of the economy
D. signal the trough of a recessionary market

28. The stage in an industry's growth cycle in which product acceptance is spreading, investors can foresee the industry's future, and overall economic variables have little to do with the industry's overall performance, is known as the _____.

A. initial development stage
B. rapid expansion stage
C. mature growth stage
D. stability or decline stage

29. The measure that indicates how efficiently assets are being used to support sales is called the _____.

A. total asset turnover
B. current ratio
C. book value
D. net profit margin

Continued...

30. Padini Bhd has a return on assets of 8%. If it has RM1.5 million in total assets and a total asset turnover of 2, it follows that the firm must have a net profit margin of ____.

A. 4%
B. 6%
C. 8%
D. 12%

31. Which of the following are advantages of owning bonds?

I. Diversification of properties.
II. Higher long-term returns than equity holdings.
III. Current income.
IV. Relatively low risk.

A. I and II only.
B. I, III and IV only.
C. I, II and III only.
D. I, II, III and IV.

32. Bonds are least likely to be called if _____.

A. they are selling at a substantial premium
B. they are selling at a substantial discount
C. the price is close to par value
D. if they do not mature for at least 5 years

33. An increase in the market rate of return on an outstanding bond will _____.

A. increase the coupon rate
B. decrease the coupon rate
C. increase the bond price
D. decrease the bond price

34. When the market rate of return exceeds the coupon rate, a bond will sell at _____.

A. par
B. face value
C. a premium
D. a discount

35. If you expect market interest rates to rise, you should purchase _____.

A. short term, low coupon bonds
B. short term, high coupon bonds
C. long term, low coupon bonds
D. long term, high coupon bonds

Continued...

36. An inverted yield curve _____.

A. means that long-term bonds are yielding more than short-term bonds
B. exists when intermediate-term bonds have higher yields than either short-term or long-term bonds
C. rewards long-term investors for the additional risk they are assuming
D. generally results from actions by the BNM to control inflation

37. Long-term bonds are _____ than short-term bonds.

A. less risky
B. more liquid
C. subject to more uncertainty
D. less sensitive to interest rate changes

38. Based on the concept of bond duration, which one of the following statement is **CORRECT**?

A. Lower coupons result in shorter durations.
B. Longer maturities mean shorter durations.
C. Higher yields (YTMs) lead to longer durations.
D. Longer durations mean greater volatility.

39. Which one of the following bonds would have a duration that exactly matches its time to maturity?

A. Discount bond.
B. Premium bond.
C. Zero-coupon bond.
D. Malaysia government bond.

40. The mathematical link between a bond's price and interest rate changes is the _____.

A. Macaulay duration
B. Modified duration
C. Yield to market
D. Yield-to-call

41. Which of the following are advantages offered by mutual funds?

I. Professional portfolio management.
II. Dividend reinvestment.
III. Consistent returns in excess of the overall market rate of return.
IV. Modest capital outlay for investors.

A. I and II only.
B. I and IV only.
C. II, III and IV only.
D. I, II and IV only.

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42. One drawback of investing in mutual funds is the _____.

A. annual management fee
B. lack of liquidity of fund shares
C. amount required for the initial investment
D. lack of information on the performance of the fund

43. A type of fund that invests in real estate and/or mortgages is known as a _____.

A. REIT
B. ETF
C. sector fund
D. hedge fund

44. An aggressive growth mutual fund is least likely to purchase a stock _____.

A. with a high P/E ratio
B. with a high anticipated rate of growth
C. of an unseasoned firm
D. with a high dividend yield

45. A mutual fund is generally more tax efficient when it has a _____ turnover rate and a _____ dividend yield.

A. low; low
B. low; high
C. high; low
D. high; high

[TOTAL 45 MARKS]

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SECTION B: STRUCTURED QUESTIONS

QUESTION 1

a) Describe the difference between bonus issue and rights issue (offering). (4 marks)

b) *"The ringgit, the worst-hit regional currency since Donald Trump's unexpected U.S. election win thwarted risk appetite, has slid over 5% in the last eight sessions. It fell 0.6% to 4.414 against the dollar Friday to its lowest levels since January and is down over 3% for the week...*

The nation's benchmark FTSE Bursa Malaysia KLCI slipped 0.2% to 1,623.80 points Friday. The index ended the week 0.6% lower, the third consecutive weekly decline..."

Resource: Asia.nikkei.com [Malaysian ringgit, share slide as FED hints at hike]
http://asia.nikkei.com/Markets/Equities/Malaysian-ringgit-shares-slide-as-Fed-hints-at-hike

Based on the article above, Malaysia stock market had faced a huge negative impact from US election. Explain the risks that the country's investors faced in term of:

i. Market risk. (Political upheaval) (3 marks)
ii. Currency exchange rate risk. (3 marks)

c) *"Stock A has beta greater than one and Stock B has a beta less than one."*

Describe what is beta and explain its implication with respect to market returns. (5 marks)

(Total 15 marks)

QUESTION 2

Lim is a financial planner at ECN BHD. She is given a project to evaluate 2 potential portfolios for her client. The portfolios given as Table 1:

		Portfolio Weights (%)	
Assets	Beta	Platinum Portfolio	Diamond Portfolio
International Stock	1.50	40	10
Bond	0.50	15	30
Mutual fund	1.40	10	40
Real estate	0.90	35	20

Table 1

Continued...

a) Calculate the beta of Platinum and Diamond portfolio. (10 marks)

b) Based on answer (a), which portfolio is riskier? Explain your choice. (2 marks)

c) Given risk-free rate of 3% and the market return of 10%, calculate the required return of both portfolios using CAPM. (6 marks)

d) List **TWO** benefits that investor could obtained from portfolio diversification. (2 marks)

(Total 20 marks)

QUESTION 3

a) You purchase 700 shares of JOHAN BHD on margin at a price of RM47 per share. Your broker requires you to deposit RM17,000.
   i. Calculate the debit balance. (2 marks)
   ii. Calculate the margin requirement. (2 marks)

b) You invested RM25, 000 in a mutual fund at the beginning of the year when the NAV was RM33.16. At the end of year, the fund paid RM1.09 in the long-term distributions. If the NAV of the fund at the end of the year was RM37.81, calculate the total return. (2 marks)

c) A closed-end fund has total asset of RM465 million and liabilities of RM260, 000. Currently, there are RM26 million shares outstanding.
   i. Calculate the NAV of the fund. (2 marks)
   ii. If given the current fund price is RM16.75. Based on answer (i), calculate the premium or discount on the fund. (2 marks)

d) Jake purchased 200 shares of Asiatas stock at RM21.25 per share. After nine months, he sold all of his shares at a price of RM19.88 per share. Jake received a total of RM0.55 per share in dividends during the time he owned the shares. Calculate his stock investment holding period return. (HPR) (2 marks)

e) Explain briefly the **FOUR (4)** stages of investing over life cycle. (8 marks)

(Total 20 marks)

[TOTAL 55 MARKS]

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